



Washington State  
Liquor Control Board

# Liquor Board Response to Three Tier Regulatory System of Beer and Wine Task Force Recommendations

January 11, 2007  
Lorraine Lee, Chairman  
Liquor Control Board



# Agenda

- Background
- Objectives
- Task Force Membership
- Methodology
- Recommendations and Next Steps



# Background

- In 2006, Second Substitute Senate Bill (2SSB) 6823 was passed. Section 13 of that Bill directed the creation of the Three-Tier Task Force.
  - The Liquor Control Board shall convene a Task Force to conduct a comprehensive review of the current regulatory system controlling the sale and distribution of beer and wine in Washington State. The Board shall include stakeholders representing producers, distributors, consumers, retailers, carriers and legislators in conducting its review.



# Objectives

- The Task Force was directed to
  - review the genesis of the current regulatory system and whether the system in its current configuration should continue. . .
  - identify key issues, concerns, and desired changes by stakeholders about the current system and shall identify alternatives or modifications to the current system. . .
  - research and analyze the impacts and implications of this act, and other suggested modifications to the system on distributors, producers, retailers, and consumers. . .
  - make recommendations about any proposed changes to the system by December 15, 2006.



# Task Force Members

Name	Representing	Organization
<b>Chairperson - Nate Ford</b>		
<b>Legislators (4)</b>		
<b>Jeanne Kohl-Welles</b>	Senate	
<b>Linda Evans Parlette</b>	Senate	
<b>Steve Conway</b>	House of Representatives	
<b>Richard Curtis /</b>	House of Representatives	
<b>Cary Condotta*</b>		
<b>Industry Representatives (10)</b>		
<b>Mike Hale</b>	WA Beer Manufacturer	Hale's Ale
<b>Tim Hightower</b>	WA Wine Manufacturer	WA Wine Institute
<b>Shelley Sieveking</b>	Out-of-state Beer Manufacturers	Anheuser-Busch
<b>Katie Jacoy</b>	Out-of-state Wine Manufacturers	California Wine Institute
<b>Lynn Gust</b>	Large Grocer	Fred Meyer
<b>Steve Lynn</b>	Specialty Retailer	Water to Wine Shop
<b>John McKay</b>	Large Retailer	Costco
<b>Perry Park</b>	Small Grocer	Korean-American Grocers Association
<b>Anthony Anton /</b>	On-Premises Licensees	WA Restaurant Association
<b>Gene Vosberg*</b>		
<b>Phil Wayt</b>	Distributors	Washington Beer & Wine Wholesalers Association



## Process: Task Force Members (cont.)

Name	Representing	Organization
<b>Local Government / Prevention Community (4)</b>		
Carol Owens	Prevention/Treatment	Governor's Council on Substance Abuse
Tom Carr	Local Government	Seattle City Attorney
Greg Hopkins	Local Law Enforcement	City of Tacoma Policy Department
Mary Segawa	Prevention/Treatment	Together!
<b>Consumer / Public Citizen (1)</b>		
Fred Hellberg	Consumers	
<b>LCB Representative (1)</b>		
Rick Garza	Liquor Control Board	



# Methodology

- The LCB hired Sterling Associates to support the Task Force.
  - Provide independent research.
  - Conduct analysis.
  - Facilitate meetings.
  - Support the Task Force.
- A survey of other states was conducted to seek information about their regulations, policies, and measures.
- Over 100 stakeholders were interviewed to identify issues and concerns.



# Methodology

- The results of these interviews were consolidated, resulting in a list of about 27 key issues. The Task Force prioritized these issues and separated them into three groupings.
  - Sales and Distribution.
  - Relationship Among the Tiers.
  - Control and Enforcement.





# Recommendations & Next Steps

## Recommendation #1 State Alcohol Control Policy

- The Task Force believes that an appropriate alcohol regulatory system for beer and wine sales and distribution should be based upon the three policy goals set forth below. In creating and interpreting such a regulatory system, the Legislature and the LCB should consider the economic development of wineries and breweries and related industries, so long as the LCB and the Legislature also consider any adverse impact of any proposals on public health, safety or welfare. *(Adopted 17Y to 0N)*



# Recommendations & Next Steps

## Recommendation #1 (continued)

- **Policy Goal 1: To prevent the misuse of alcohol.**
  - “Misuse of alcohol” includes underage sales/drinking, driving while under the influence, serving to inebriated consumers, public inebriation, sales outside of the regulated system, or any other use that could promote public harm or create safety or nuisance issues.
  - In an attempt to prevent misuse, the state should not affect responsible moderate consumption.
  - “Responsible moderate consumption” is the public sale/consumption of alcohol by legal adults, without misuse.



# Recommendations & Next Steps

## Recommendation #1 (continued)

- **Policy Goal 2: To promote the efficient collection of taxes.**
  - State's Working Interpretation: readily available and reliable information about all sales in order to effectively collect accurate state taxes.



# Recommendations & Next Steps

## Recommendation #1 (continued)

- **Policy Goal 3: To promote the public interest in fostering the orderly and responsible distribution of malt beverages and wine towards effective control of consumption.**
  - State's Working Interpretation: avoidance of pressure on any one industry (producers, distributors, or retailers) from another that would cause collusion or result in unfair advantages or disadvantages that may result in over-consumption or increased access by minors.

**LCB NEXT STEPS:** The LCB supports this recommendation.



# Recommendations & Next Steps

## Recommendation #2: Tied House Prohibitions against Providing Money or Money's Worth to Retailers *(adopted 15Y to 0N)*

*[Current Regulations: Manufacturers, distributors, importers, and authorized representatives are prohibited from providing items of value (money or money's worth) to retailers. Exceptions have been granted to address specific situations.]*



# Recommendations & Next Steps

## Recommendation #2 (continued)

- The Task Force recommends continuing the state's current approach of adopting specific exceptions to the prohibition against providing money's worth to retailers, and directs the LCB to work with stakeholders to re-examine current exceptions and develop a comprehensive list of proposed exceptions for legislative consideration. When developing the list of recommended exceptions, the LCB should consider:
  - Industry business needs.
  - Customer benefits.
  - Whether it creates an unwanted inducement for retailers.
  - The potential for increased misuse of alcohol.
  - Enforcement resources.



# Recommendations & Next Steps

Recommendation #2 (continued)

LCB NEXT STEPS:



# Recommendations & Next Steps

## Recommendation #3: Tied House Ownership and Financial Interests *(adopted 9Y to 3N)*

The Task Force encourages the liberalization of the Tied House ownership restrictions, and recommends that the Legislature work with the LCB to arrive at a workable solution.





# Recommendations & Next Steps

## Recommendation #4: Price Posting (*adopted 6Y to 5N*)

The Task Force recommends that price posting be eliminated.

***Note: The Task Force did not agree on a recommendation related to Price Holds.***



## Recommendations & Next Steps

Recommendation #5: Mandatory Minimum Mark-up (*adopted 7Y to 5N*)

**The Task Force recommends elimination of the mandatory minimum mark-up requirement.**

Recommendation #6: Volume Discounts (*adopted 7Y to 4N*):

The Task Force recommends that volume discounts be allowed, with the same volume pricing available to all.



# Recommendations & Next Steps

## Recommendation #7: Use of Common Carriers (adopted 13Y to 2N)

***[Current Regulations: Manufacturers and distributors may not contract common carriers to deliver product to retailers. However, retailers may contract with common carriers to pick up and deliver product to their premises.]***

The Task Force recommends that manufacturers and distributors be allowed to ship their product to retailers using common carriers and consider establishing a licensing requirement for all common carriers delivering alcoholic beverages regardless of origination.

## Recommendation #8: Credit (adopted 9Y to 3N)

***[Current Regulations: Distributors may receive credit terms from product purchased from manufacturers. but retailers must pay cash***



# Recommendations & Next Steps

## Recommendation #9: Enforcement Resources (*adopted 15Y to 0N*)

**The Task Force recommends that the LCB be supported by adequate enforcement resources and that those resources grow in consideration of population increases and increases in liquor licenses.**

## Recommendation #10: General Impact Measures (*adopted 10Y to 2N, 1 abstain*)

**The Legislature is encouraged to provide funding to the LCB to develop research and analysis capability, and work collaboratively with stakeholders and other agencies and organizations to collect independent data, and to**



# Recommendations & Next Steps

## Recommendation #11: Measuring Impacts of 2SSB 6823

*(adopted 11Y to 0N):*

***[Current Regulations: 2SSB 6823 requires the task force to examine the impacts of implementing the expansion of the self-distribution authority to out-of-state manufacturers.]***

The Task Force recommends the LCB identify and select key impact measures that can be monitored and analyzed by the Fall of 2007, to provide the Legislature with data about the impacts related to the implementation of 2SSB 6823.

*(continued....)*



# Recommendations & Next Steps

- Recommendation 11 (continued)

The LCB is encouraged to work with stakeholders and legislative staff to identify the most pertinent impact measures. Key impact measures should be tied to the state's policy goals and should address the impact to industry, consumers, the state and society. And, to the extent possible, consideration should be given to selecting measures for which baseline data are already available. Basic data should be collected and reported; suggestions include:

- The number of endorsements granted to out-of-state manufacturers and in-state retailers to use the expanded authority,
- The volume of product sold through out-of-state self-distribution,
- The size and type of retailers using the authority, and
- Tax revenue collections.